

AR43

DOMTAR LIMITED

ANNUAL REPORT 1965

Les actionnaires qui préféreraient recevoir leur rapport en français
n'ont qu'à aviser le Secrétaire de Domtar Limited.

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Directors and officers

DOMTAR

DIRECTORS

*T. N. Beaupré, Vancouver
George W. Bourke, Montreal
C. Gordon Cockshutt, Brantford
Ralph W. Cooper, Hamilton
*H. Roy Crabtree, Montreal
Shirley G. Dixon, Q.C., Montreal
George H. Dobbie, Galt
Raymond Dupuis, Q.C., Montreal
J. E. L. Duquet, Q.C., Montreal
Hon. Geo. B. Foster, Q.C., Montreal
P. M. Fox, Montreal
C. L. Gundy, Toronto
Roger T. Hager, Vancouver
*W. N. Hall, Montreal
R. D. Harkness, D.S.O., M.C., Montreal
W. H. Howard, C.B.E., Q.C., Montreal
J. G. Kirkpatrick, Q.C., Montreal
Roger Létourneau, Q.C., LL.D., Quebec
*John A. McDougald, Toronto
*Maxwell C. G. Meighen, O.B.E., Toronto
Nathan Pitcairn, Jenkintown, Pa.
*Arthur Ross, New York
*J. N. Swinden, Toronto
*E. P. Taylor, C.M.G., Bahama Islands
N. A. Timmins, Jr., Bahama Islands
*Colin W. Webster, Montreal

*Members of the Executive Committee

HEAD OFFICE

Twenty-second floor, Sun Life Building,
Montreal 2, Quebec

OFFICERS

T. N. Beaupré, Chairman of the Board
W. N. Hall, President
R. M. Collins, Senior Vice-President
H. E. Mason, Senior Vice-President
W. R. Spence, Senior Vice-President
E. A. Thompson, Senior Vice-President
W. E. Adkins, Vice-President — Engineering
Pierre Delagrange, Vice-President —
Employee and Public Relations
C. M. Fellows, Vice-President
R. E. Kirbyson, Vice-President
W. R. Lawson, Vice-President —
Purchasing and Traffic
R. J. Moyse, Vice-President — Finance
W. H. Palm, Vice-President
S. A. Kerr, C.A., F.C.I.S., Secretary and Treasurer
W. J. Strain, Comptroller
E. G. Aust, C.A., Assistant Treasurer

TRANSFER AGENTS

for preference and common shares:
Montreal Trust Company — Halifax, N.S.;
Saint John, N.B.; Montreal, Que.; Toronto, Ont.;
Winnipeg, Man.; Vancouver, B.C.

for common shares only:
Empire Trust Company, New York, N.Y.

REGISTRARS

for preference and common shares:
The Royal Trust Company — Halifax, N.S.;
Saint John, N.B.; Montreal, Que.; Toronto, Ont.;
Winnipeg, Man.; Vancouver, B.C.

for common shares only:
Empire Trust Company, New York, N.Y.

Highlights

	1965	1964
Sales	\$406,832,923	\$385,957,920
Income Taxes — Current	\$ 3,459,000	\$ 11,475,000
— Deferred	\$ 11,561,011	\$ 5,878,781
Net Income	\$ 26,646,040	\$ 24,963,225
Common Shares Outstanding	14,621,715	14,621,715
Earnings per Common Share	\$ 1.80	\$ 1.69
Dividends per Common Share	\$.90	\$.80
Working Capital	\$119,464,510	\$114,794,515
Cash Flow — Total	\$ 59,457,051	\$ 51,342,006
— Per Common Share	\$ 4.05	\$ 3.49
Expenditures on Plant	\$ 66,504,181	\$ 28,887,728
Book Value per Common Share	\$ 15.51	\$ 14.72
Number of Preference Shareholders	1,508	1,569
Number of Common Shareholders	40,874	39,820
Number of Employees — Average, exclusive of woods workers	18,130	18,084
2 Wages and Salaries	\$ 99,903,903	\$ 94,876,335

Report of the directors to the shareholders

DOMTAR

The consolidated financial statements of Domtar Limited and its subsidiaries for the year ended December 31st, 1965 together with the report of the Auditors are submitted on behalf of your Board of Directors.

Net Income

In 1965 net income reached the record level of \$26.6 million after all charges. The corresponding figure in 1964 was \$25.0 million. The earnings per common share, after providing for preference dividends, amounted to \$1.80 in 1965 compared with \$1.69 per share in the previous year.

Cash Flow

The cash generated during the year was \$59.5 million, an increase of \$8 million over that for 1964. The cash flow per common share amounted to \$4.05 compared with \$3.49 for the previous year.

Dividends

In 1965 the dividend declared on the common shares was raised by 10 cents to 90¢, requiring a

payment of \$13.2 million as against \$11.7 million in 1964. The regular dividend of \$1.00 per share was paid on the preference shares of the Company.

Sales and Operating Profit

Another sales record was achieved in 1965 with sales at \$406.8 million, compared with \$386.0 million in 1964.

Operating profit for the year amounted to \$69.8 million. Pulp and paper products produced 60.7% of the operating profit and all other activities 39.3%. The ratio of operating profit to sales declined from 17.9% in 1964 to 17.2% in 1965 due to higher manufacturing costs.

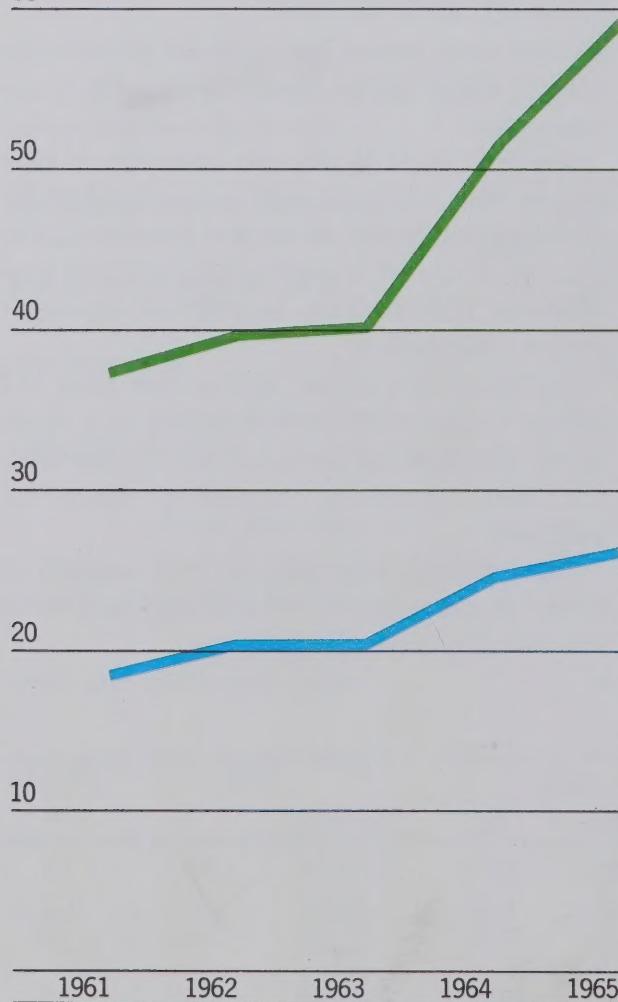
Investment and sundry income rose from \$2.1 million in 1964 to \$2.5 million mainly as a result of the investment of funds required for construction being temporarily invested in short-term securities.

The following table gives a brief analysis of sales and a comparison with the previous year for the three major product groups.

	1965 Thousands	%	1964 Thousands	%	Increase %
Pulp and Paper	\$255,283	62.7	\$240,482	62.3	6.2
Chemicals	70,739	17.4	63,909	16.5	10.7
Construction Materials	80,811	19.9	81,567	21.2	(.9)
	\$406,833	100.0	\$385,958	100.0	5.4

Net Income and Cash Flow (In Millions of Dollars)

— Cash Flow
— Net Income
\$ 60



Charges Against Income

Total income taxes, both current and deferred, amounted to \$15.0 million compared with \$17.4 million in 1964. This decline was largely offset by increases of \$1.2 million in the interest on funded debt and \$0.8 million in depreciation and depletion.

A settlement was reached with the tax authorities in the matter of the acquisition of the assets of Gypsum, Lime and Alabastine, Canada, Limited referred to in previous annual reports. Profits for the year were unaffected by the settlement.

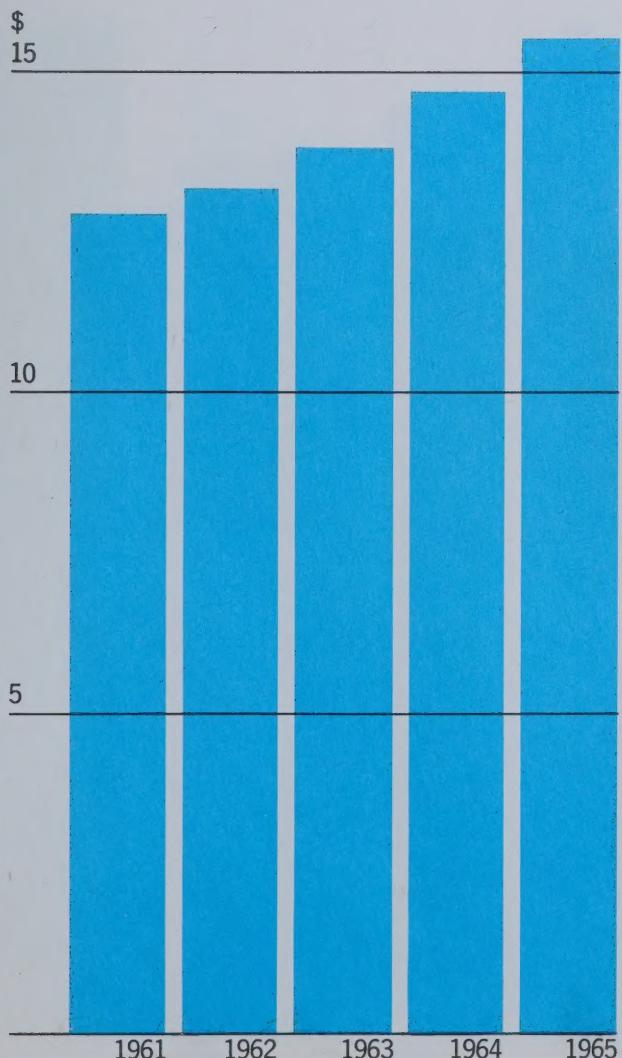
Funded Debt

In April 1965 the Company sold \$35.0 million of 5½% sinking fund debentures. The discount of \$1.2 million on this issue was applied against earned surplus. Because \$8.4 million of existing debentures were redeemed during the year, funded debt rose by only \$26.6 million to \$146.8 million including therein the funded debt due within one year.

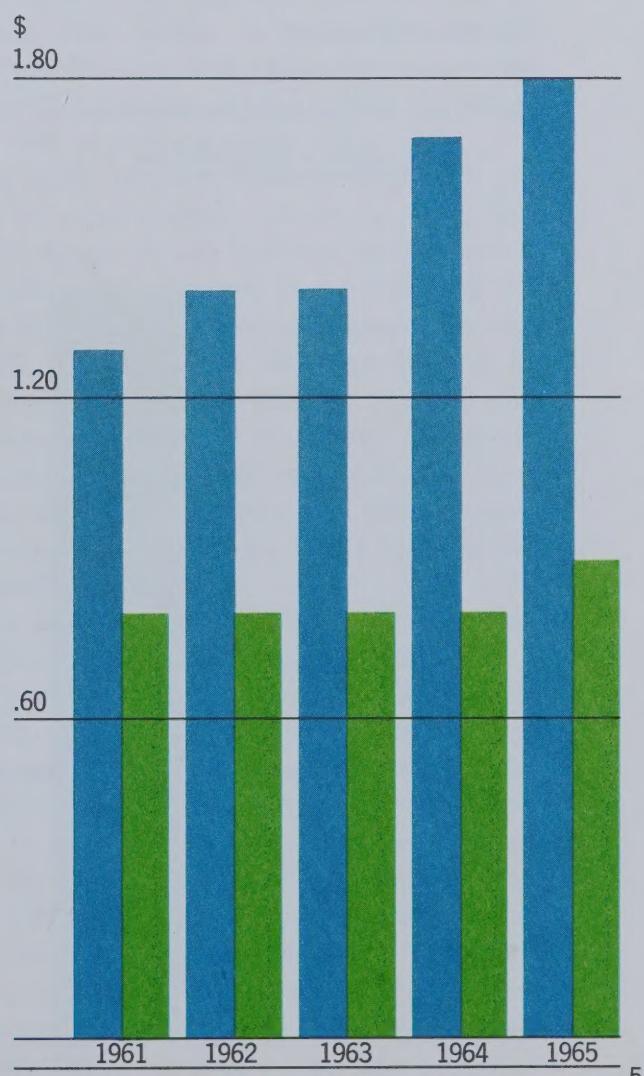
Working Capital

Net working capital totalled \$119.5 million, an increase of \$4.7 million over the amount at the end of 1964. In the payables of \$40.0 million, there was \$8.8 million owing in respect of construction work in progress. The ratio of current assets to current liabilities was 3.5 to 1.

Net Worth per Common Share



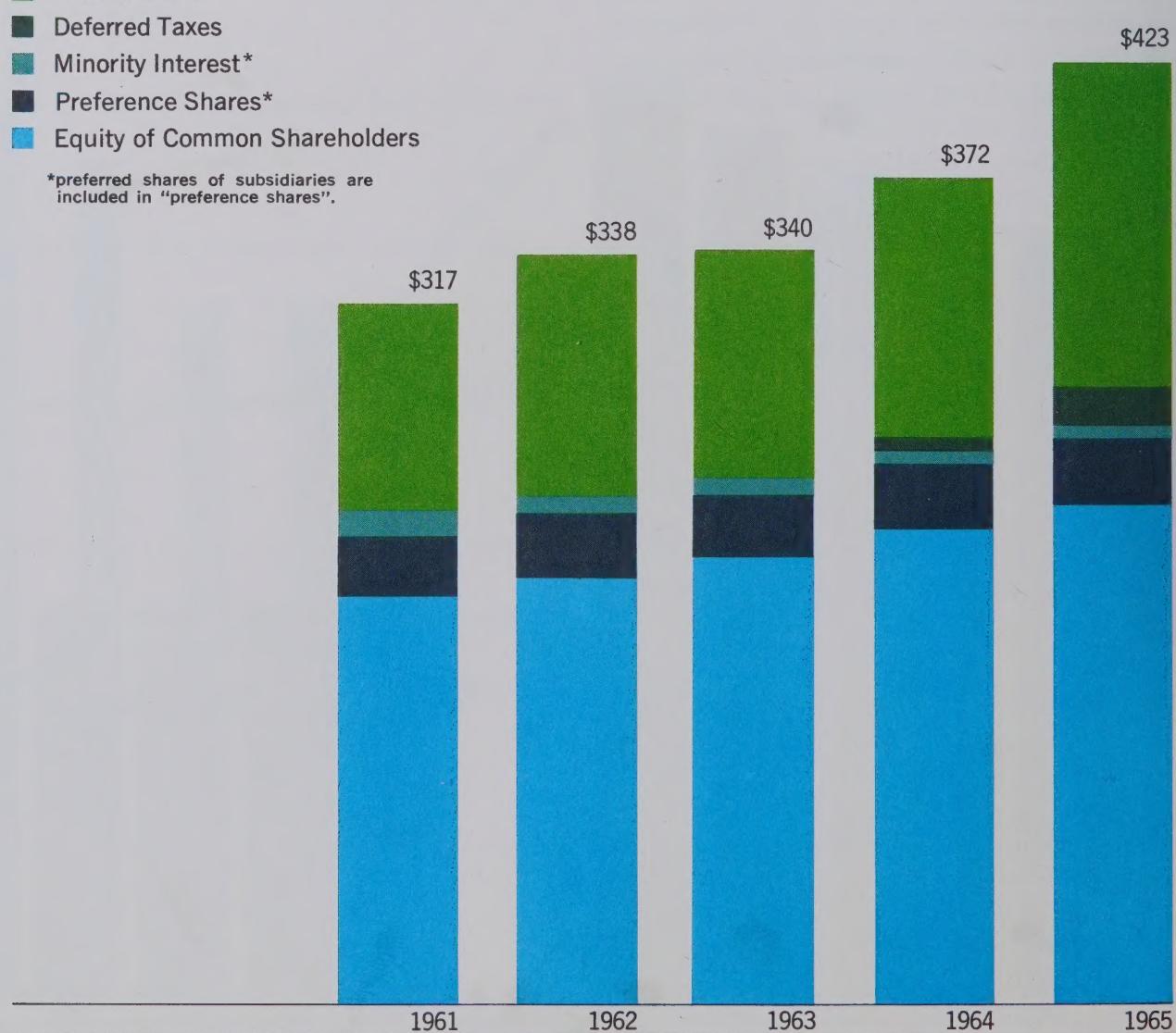
Earnings and Dividends per Common Share



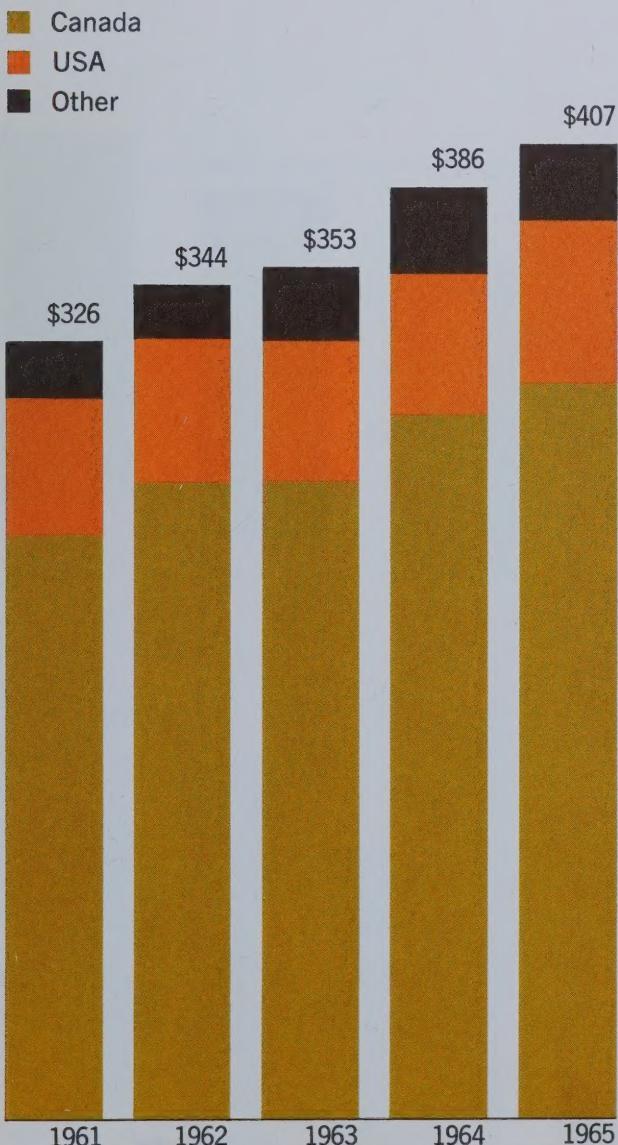
Capital Employed
(In Millions of Dollars)

- █ Funded Debt
- █ Deferred Taxes
- █ Minority Interest*
- █ Preference Shares*
- █ Equity of Common Shareholders

*preferred shares of subsidiaries are included in "preference shares".



Geographic Distribution of Total Sales
(In Millions of Dollars)



Plant and Equipment

At \$66.5 million, expenditures on new plant and equipment were more than double the outlays of \$28.9 million made in 1964. At the end of the year gross fixed assets aggregated \$527.2 million including \$74.8 million of construction work in progress. This compares with gross fixed assets of \$465.2 million including \$16.0 million of construction work in progress at the end of 1964.

The major expenditures made during the year were on those projects referred to in the 1964 Annual Report. At Lac Quéillon, construction of the pulp mill is generally on schedule and it is expected that the mill will be in production early in 1967. During the year, the Board approved the construction at Lac Quéillon of a chemical plant estimated to cost about \$9 million. This project integrates in one plant the various chemical operations required by the pulp mill, using company produced salt to generate bleaching chemicals and sodium sulphate.

The new fine paper machine at Cornwall came into production at the beginning of 1966.

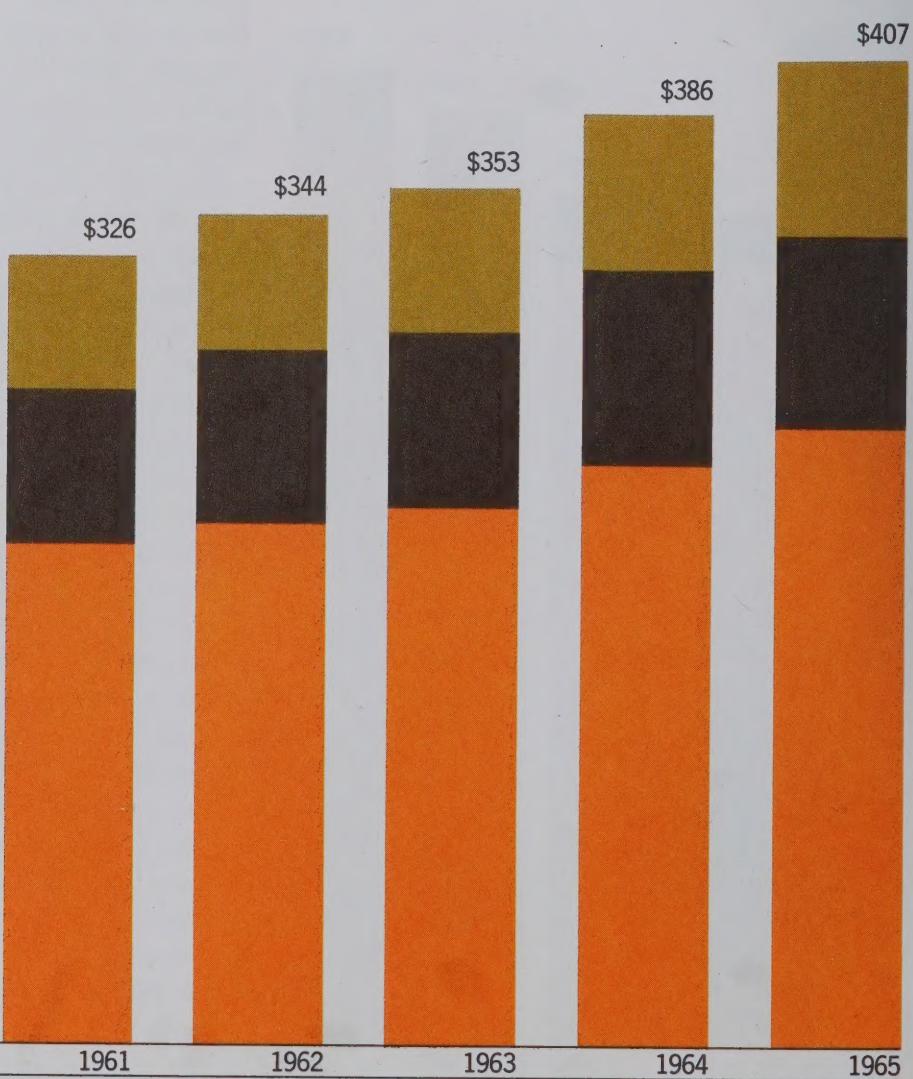
It is expected that the modernization and conversion of the mill at Windsor, Quebec will be completed early in the second quarter of 1966.

The expansion of the pulp and linerboard facilities at Red Rock, Ontario was delayed by late delivery of some major pieces of equipment and problems with the labour unions in the construction trades. Full production should be progressively realized in the second quarter of the year.

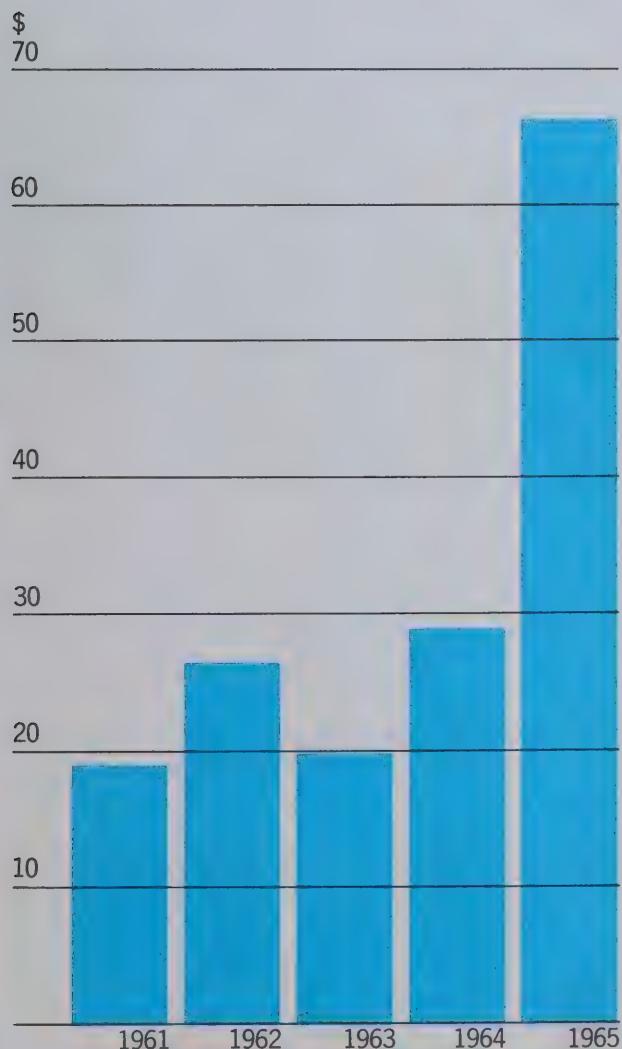
Construction of a second tunnel kiln was started at the Cooksville, Ontario brick plant. This kiln

Sales by Product Groups
(In Millions of Dollars)

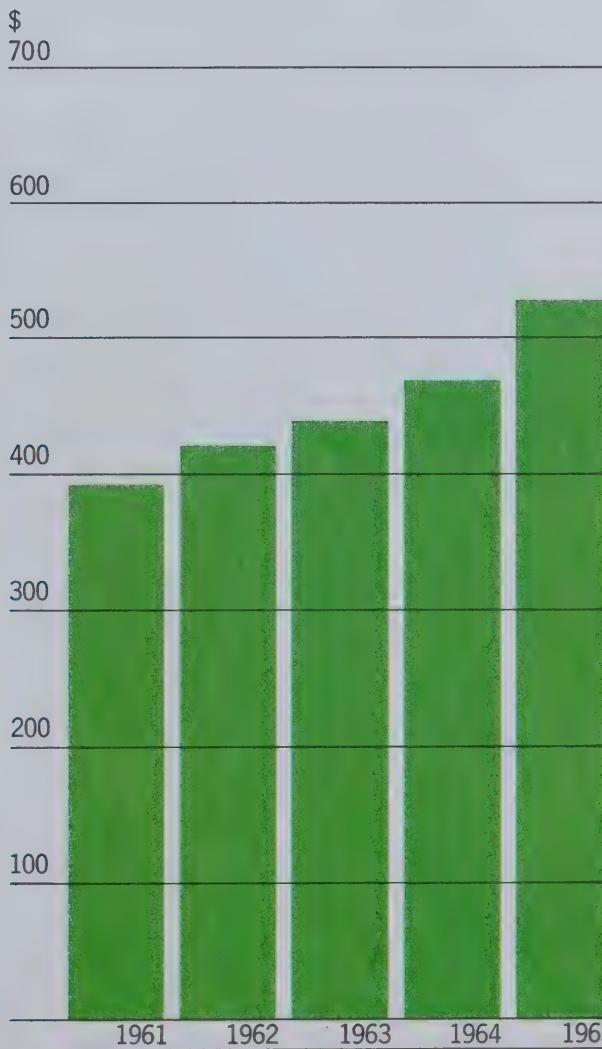
- Chemicals
- Construction Materials
- Pulp and Paper



Expenditures on New Plant, Equipment
and Properties (In Millions of Dollars)



Fixed Assets before depreciation
(In Millions of Dollars)



will double the plant's capacity and is expected to come into production during the second quarter of 1966.

The Company is proceeding with the construction at Ridgway, Pa., of a metal powders plant which will cost some \$3 million. These facilities, which will double the productive capacity of the Metal Powders Division, will service the United States market.

Plastic Packaging Products, Ltd., a pioneer in the extruding and thermoforming of plastic packages used for food products, was acquired late in the year. The plant is located in the Montreal suburb of St. Laurent and will be operated by the Plastics Division of Domtar Packaging Limited.

The Hanna Avenue board mill in Toronto has become obsolete and a decision has been taken to discontinue production at this location.

Board of Directors

The following changes have taken place since the end of the year.

Mr. deGaspé Beaubien, C.B.E., found it necessary, for reasons of health, to submit his resignation as a Director. Mr. Beaubien had been a member of your Board for five years and a member of the Board of Howard Smith Paper Mills, Limited for twenty-one years before that Company became a wholly-owned subsidiary of Domtar Limited. The Directors very much regret that the long association must be broken.

Mr. E. P. Taylor resigned as Chairman of the Board and his decision was accepted with great regret. He remains as a Director.

Mr. T. N. Beaupré was elected to succeed Mr. Taylor as Chairman of the Board. Mr. Beaupré is also a Director of Argus Corporation Limited and Chairman of the Board of British Columbia Forest Products Limited.

Your Directors wish to express their appreciation to the employees of your Company for their loyal and enthusiastic cooperation during the year.

On behalf of the Board

T. N. Beaupré,
Chairman

W. N. Hall,
President

Montreal, Quebec,
March 31, 1966.

Consolidated statement of net income

for the year ended December 31, 1965

	1965	1964
Sales	\$ 406,832,923	\$ 385,957,920
Cost of sales including selling, general and administrative expenses	336,985,379	316,986,717
Operating profit	<u>69,847,544</u>	<u>68,971,203</u>
Investment and sundry income	<u>2,460,820</u>	<u>2,088,949</u>
	<u>72,308,364</u>	<u>71,060,152</u>
Interest on funded debt	<u>7,686,479</u>	<u>6,458,621</u>
Depreciation and depletion (including \$195,495 for depletion)	<u>21,250,000</u>	<u>20,500,000</u>
Provision for current income taxes—Note 1	<u>3,459,000</u>	<u>11,475,000</u>
Provision for deferred income taxes—Note 1	<u>11,561,011</u>	<u>5,878,781</u>
Provision for minority interests	<u>1,705,834</u>	<u>1,784,525</u>
	<u>45,662,324</u>	<u>46,096,927</u>
Net income for the year—Note 1	<u><u>\$ 26,646,040</u></u>	<u><u>\$ 24,963,225</u></u>

Consolidated statement of earned surplus

for the year ended December 31, 1965

	1965	1964
Earned surplus — balance at beginning of year	\$ 73,405,618	\$ 60,818,262
Net income for the year	<u>26,646,040</u>	<u>24,963,225</u>
	<u>100,051,658</u>	<u>85,781,487</u>
Discount on issue of debentures	<u>1,225,000</u>	<u>390,400</u>
Dividends on preference shares	<u>300,000</u>	<u>300,000</u>
Dividends on common shares	<u>13,159,544</u>	<u>11,685,469</u>
	<u>14,684,544</u>	<u>12,375,869</u>
Earned surplus — balance at end of year	<u><u>\$ 85,367,114</u></u>	<u><u>\$ 73,405,618</u></u>

Consolidated balance sheet

as at December 31, 1965

Assets	1965	1964
CURRENT ASSETS:		
Cash and short-term investments	\$ 22,089,251	\$ 19,668,658
Receivables	68,258,811	65,828,902
Inventories of finished products, work in process, raw materials and supplies, at lower of cost or net realizable value	50,258,174	47,437,694
Pulpwood, at cost, and advances on woods operations	25,395,508	25,483,398
Prepaid expenses	1,172,845	1,361,308
	167,174,589	159,779,960
INVESTMENTS AND ADVANCES, AT COST:		
Listed securities (quoted value—\$9,749,700)	13,324,087	13,349,368
Other investments and advances—Note 3	9,475,610	8,617,547
	22,799,697	21,966,915
FIXED ASSETS—Note 7:		
Land and water power rights	6,934,912	7,259,902
Plant, machinery, facilities and timber limits	520,227,722	457,960,723
Less: Accumulated depreciation and depletion (including \$6,316,589 for depletion)	527,162,634	465,220,625
	246,781,529	230,093,701
	280,381,105	235,126,924
APPROVED ON BEHALF OF THE BOARD:		
E. P. TAYLOR, Director	\$ 470,355,391	\$ 416,873,799
W. N. HALL, Director		

Liabilities	1965	1964
CURRENT LIABILITIES:		
Payables	\$ 39,958,260	\$ 29,690,812
Income and other taxes—Notes 1 and 2	1,250,434	7,533,006
Dividends payable	3,650,385	3,290,627
Funded debt due within one year	2,851,000	4,471,000
	<hr/>	<hr/>
	47,710,079	44,985,445
	<hr/>	<hr/>
FUNDED DEBT—Note 4	143,993,000	115,805,000
	<hr/>	<hr/>
DEFERRED INCOME TAXES—Note 1	17,439,792	5,878,781
	<hr/>	<hr/>
MINORITY INTERESTS:		
Preferred shares of subsidiary companies—Note 5	21,220,500	21,287,500
Common share equity of subsidiary companies	6,118,698	6,574,198
	<hr/>	<hr/>
	27,339,198	27,861,698
	<hr/>	<hr/>
CAPITAL:		
Capital stock—		
\$1 Cumulative redeemable preference shares, par value \$23.50, redeemable at \$25 Authorized and issued—300,000 shares	7,050,000	7,050,000
Common shares without nominal or par value— Authorized—20,000,000 shares Outstanding—14,621,715 shares	129,816,470	129,816,470
Surplus resulting from restatement of certain fixed assets — Note 6	11,639,738	12,070,787
Earned surplus, per statement attached	85,367,114	73,405,618
	<hr/>	<hr/>
	233,873,322	222,342,875
	<hr/>	<hr/>
	\$470,355,391	\$416,873,799
	<hr/>	<hr/>

Notes to financial statements

December 31, 1965

Note 1 INCOME TAXES:

The companies have claimed annually, for tax purposes, capital cost allowances exceeding depreciation provided in the accounts.

The effect of this practice on the consolidated accounts is outlined below:

- (1) to the extent that accelerated capital cost allowances (as permitted under tax incentive legislation of the Federal and Provincial governments) have exceeded established normal capital cost allowances the companies have provided for deferred income taxes thereon and included such amounts in the consolidated balance sheet in the caption "Deferred Income Taxes";
- (2) to the extent that normal capital cost allowances have exceeded depreciation provided in the accounts the companies have disclosed in a note to the consolidated annual accounts the amounts by which income taxes otherwise payable have been reduced. These tax reductions amounted to approximately \$4,950,000 for 1965 (\$3,900,000 for 1964) and aggregated approximately \$25,340,000 at December 31, 1965.

Note 2 INCOME TAX ASSESSMENTS:

The company and certain subsidiaries have filed Notices of Objection in respect of income tax assessments received in 1964 for the years 1962 and 1963. The items in dispute (involving \$3,100,000 plus interest) arise out of the disallowance by the tax authorities of capital cost allowances claimed following the sale of certain assets.

In the opinion of Tax Counsel, the companies' arguments should be successful.

Note 3 OTHER INVESTMENTS AND ADVANCES:

The amount shown includes \$1,185,613 of secured loans to employees under the company's stock purchase plan (\$1,554,037 at December 31, 1964).

Note 4 FUNDED DEBT:

Domtar Limited—

3½% First mortgage sinking fund bonds, Series "B" maturing August 1, 1970	\$ 1,500,000
5¼% Sinking fund debentures, Series "A", due June 1, 1978	21,250,000
6¼% Sinking fund debentures, Series "B", due May 1, 1980	12,300,000
5% Debentures, Series "C", due serially April 1, 1966 to 1969	3,000,000
5½% Debentures, Series "C", due April 1, 1982	15,500,000
5¾% Debentures, Series "D", due serially April 1, 1966 to 1970	4,000,000
5¾% Debentures, Series "D", due April 1, 1984	16,000,000
5½% Sinking fund debentures, Series "E", due May 1, 1990	35,000,000
	108,550,000
Less: Held for sinking fund	2,055,000
	106,495,000

Howard Smith Paper Mills, Limited—

3% First mortgage bonds, 1950 Series, due December 1, 1966-1970	3,000,000
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St. Lawrence Corporation Limited—

First mortgage sinking fund bonds—	
5% Series "A", due April 15, 1972	11,231,000
4¾% Series "B", due April 15, 1972 (payable in U.S. funds) . . .	4,084,000
5% Series "C", due May 1, 1978 . .	9,740,000
Sinking fund debentures (secured)—	
6¾% Series "A", due June 15, 1980	14,200,000
	39,255,000
Less: Held for sinking fund	1,906,000
	37,349,000
	146,844,000
Less: Funded debt due within one year .	2,851,000
	\$ 143,993,000

Note 5 MINORITY INTERESTS — PREFERRED SHARES OF SUBSIDIARY COMPANIES:

Howard Smith Paper Mills, Limited—		
160,000 \$2 preferred shares of \$50 each, redeemable at \$52½		8,000,000
St. Lawrence Corporation Limited—		
132,205 5% preferred shares of \$100 each, redeemable at \$103 to May 15, 1968; \$102 to May 15, 1971; and \$101 thereafter		13,220,500
	\$ 21,220,500	

Note 6 SURPLUS RESULTING FROM RESTATEMENT OF CERTAIN FIXED ASSETS:

Excess of restated depreciated value over depreciated book value of certain fixed assets (unchanged during year)	\$ 15,141,969
Net excess (after increase of \$431,049 during 1965) of consideration for acquisition of shares of subsidiaries over book value of net assets	3,502,231
	\$ 11,639,738

Note 7 FIXED ASSETS:

Land and water power rights are stated at cost. Plant, machinery, facilities and timber limits are stated generally at cost, including in such cost the excess of the cost of the shares of a partially-owned subsidiary company over the book value of its net assets.

The unexpended balance of approved capital projects amounted to \$47 million at the end of 1965.

Note 8

Remuneration received by directors, including salaries of officers who are also directors, aggregated \$341,954 in 1965.

Auditors' report to the shareholders

We have examined the consolidated balance sheet of Domtar Limited and subsidiary companies as at December 31, 1965 and the consolidated statements of net income and earned surplus for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and consolidated statements of net income and earned surplus present fairly the combined financial position of Domtar Limited and subsidiary companies as at December 31, 1965 and the results of their combined operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Source and application of funds

for 1964 and 1965

	<i>(in Millions of Dollars)</i>	1965	1964
Cash and short-term investments at beginning of period	\$ 19.7	\$ 2.6	_____
SOURCE OF FUNDS:			
Net income	26.6	25.0	_____
Depreciation and depletion	21.3	20.5	_____
Deferred income taxes	11.6	5.8	_____
Cash flow	59.5	51.3	_____
Domtar common shares	—	1.3	_____
Debentures, net of discount	33.8	19.6	_____
	93.3	72.2	_____
	<u>\$113.0</u>	<u>\$74.8</u>	_____
APPLICATION OF FUNDS:			
Plant and equipment	\$ 66.5	\$28.9	_____
Investments and advances . . . . .	.8	.7	_____
Redemption of funded debt	8.4	6.9	_____
Reduction in minority interests . . . . .	.5	.9	_____
Dividends on preference shares . . . . .	.3	.3	_____
Dividends on common shares	13.2	11.7	_____
Increase in working capital* . . . . .	.6	5.5	_____
Miscellaneous . . . . .	.6	.2	_____
	90.9	55.1	_____
Cash and short-term investments at end of period	22.1	19.7	_____
	<u>\$113.0</u>	<u>\$74.8</u>	_____

* excluding cash and short-term investments and funded debt due within one year.

Domtar's "Fleecy" fabric softener is widely used in Canadian households to make fabric soft and comfortable. Housewives also recognize the ability of "Fleecy" to reduce lint, increase the life of the article and make ironing easier. Another important property of "Fleecy" is the reduction of static electricity, preventing the annoying "cling" of many synthetics.

"Glide" liquid and spray laundry starch imparts "body" to fabrics which makes ironed clothes stay bright, fresh and crisp. This Domtar product was designed to eliminate the messy inconvenience of mixing, boiling and straining powdered starch.

Group as a Whole

The operating divisions in this group established record sales. Profit margins were well maintained despite rising costs. The sales gain of almost 11% followed an improvement of about 9% in the previous year.

The buoyant economy along with good export demand provided an increase of 10% in lime deliveries. The "SIFTO" salt mine and evaporator plants were kept busy taking care of the increased consumer, industrial and export demand and the growth in the use of salt to keep highways and streets open during the winter months.

Household Products

Progress continued in the healthy growth pattern the Consumer Products Division has enjoyed for over two decades. Domtar's three most popular brands, "JAVEX" liquid bleach, "FLEECY" fabric softener and "GLIDE" liquid and spray starch, again successfully withstood the challenge of strong competition and maintained their position of market leadership. The combination of high quality, sound sales policies and effective consumer advertising maintained the high degree of consumer acceptance enjoyed by these nationally known products. Plans are already well advanced for additional products and package improvements that can be expected to strengthen the dominant position already held in some lines and widen consumer acceptance of other products.



Fence posts roll out of a cylinder at Cochrane, Alta., after being pressure treated with creosote against weathering and decay. The new Cochrane plant, which started operating in 1965, is one of nine operating in eight provinces in the Canada Creosoting Division of Domtar Chemicals.



Tar Derivatives

Shipments of creosote were substantially improved. Domtar's wood treating plants needed larger quantities of this material and deliveries to domestic and export customers were also higher. Our trade demand for pitch and shipments to Domtar's bituminized fibre pipe and conduit plant were maintained.

Detergents and Carboxel

Chemical Developments of Canada Limited, a 51% subsidiary, had a successful year. Sales of surfactants to the detergent, textile and pulp and paper industries improved. Dyestuffs, an important resale item, were in better demand.

Phthalic

Phthalic anhydride sales were below 1964. Prices remained at unrealistic levels throughout the year although the pressure of foreign phthalic upon domestic prices is showing some indication of abatement. Technical plant improvements and process changes can be expected to produce lower costs at the Toronto phthalic plant in the year ahead and strengthen our ability to meet foreign competition.

Metal Powders

The Montreal metal powders plant ran at capacity in its first full year of operation. Our position as the major supplier of weldrod powder here and in the United States was maintained. New and improved products in the metallurgical field have been developed.

The output of the metal powders plant under construction at Ridgway, Pennsylvania, which will come on stream in late 1966, will supplement production at Montreal and will not interfere with operations at this location.

Wood Treatment

The buoyancy in the heavy construction field raised the demand for treated piling, poles and lumber. Shipments of treated ties for the railways were little changed with some increase indicated for this year. Commercial demand for treated wood remains active and our wood preservative plants look for another busy year.

A new \$525,000 sulphur trioxide continuous sulphonation unit was installed in 1965 in the plant of Chemical Developments of Canada Limited at Longford Mills, Ont. This enables the company to offer a broader range of specialty chemicals used in the manufacture of such products as cleansers and emulsifiers.

"Sifto" salt, produced by Domtar Chemicals Limited, being packaged in the newly renovated evaporation plant at Goderich, Ont., where salt was discovered 100 years ago. The renovation includes a new building and modern handling and packaging facilities.



Responsibility

The Companies comprising the Chemical Group are under the direction and supervision of the following officers:

Domtar Chemicals Limited, Mr. A. Monsaroff, Vice-President and Managing Director, Montreal, Quebec.

Domtar Consumer Products Ltd., Mr. R. E. Kirbyson, Vice-President and Managing Director, Toronto, Ontario.



Construction materials group

Group as a Whole

Sales of the operating divisions in this group were just slightly below 1964. The heavy advance buying in the fall of 1964, preceding the application of the final increase in the Federal sales tax on building materials, reduced the demand for many lines in the first quarter of 1965. However, most of this decline was offset in the remaining three quarters and the final results approached the record sales of the previous year.

Gypsum and Brick

Shipments of gypsum wallboard and lath were moderately higher. Brick deliveries were lower due in part to a strike at the Cooksville plant and to insufficient capacity to meet demand in central and southwestern Ontario. The enlarged output from the second continuous tunnel kiln under construction at Cooksville will enable expansion to take place in the Ontario market and permit the closing down of some high cost batch kilns at this location.

Roofing

Sales of shingles and other roofing materials were well below the previous year, largely due to the market disturbance following the change in the sales tax and to the continuing high proportion of new apartment units in total residential construction.

"SIPOREX"

The market for "SIPOREX" lightweight concrete was much improved and a new sales record was established.

Attractive and durable glazed brick and demountable office partitions are two examples of the broad product line turned out by Domtar Construction Materials in its 27 plants across Canada.



"Arborite", Domtar's decorative and virtually indestructible plastic laminate, is best known for the contributions it makes to a beautiful kitchen, as in the counter tops, cupboard facing and trim shown here. It is being exported in increasing quantities to more than 60 countries throughout the world.

Widely used in Canadian construction is "Siporex", the versatile lightweight cellular concrete produced by Domtar Construction Materials. Here, it is becoming part of the general administration building at Expo 67 in Montreal.

"ARBORITE"

The domestic demand for "ARBORITE" plastic laminates remained firm while the performance of the plant in the United Kingdom was substantially improved.

Pipe and Conduit

Sales of "NO-CO-RODE" and "CORNWALL" bituminized fibre pipe and conduit for drainage systems, house to sewer connections and underground electrical installations were virtually unchanged.

Resale Products

Most resale items such as asphalt for industrial roofing and "Fiberglas" insulation were substantially above 1964.

Residential Construction

Housing starts in 1965 were about the same as in the previous year and apartments again accounted for more than half the total number of units. Residential construction, especially single family dwellings which provide the principal demand for many products of this division, is expected to rise in 1966 unless restricted by a shortage of skilled labour and conventional mortgage finance.

Responsibility

The operations of the divisions comprising Domtar Construction Materials Ltd. are under the direction of Mr. J. Cochran, Vice-President and Managing Director, with headquarters in Montreal, Quebec.



Pulp and paper group

Group as a Whole

The operating divisions comprising this group had a 6% improvement in sales which followed the 9% increase achieved in 1964. The improvement was largely the result of a better product mix and higher volume as prices generally were held down by competitive factors. Increased production costs brought about by wage settlements, higher prices of many process materials and heavier municipal taxes more than offset the results of the aggressive and continuing effort to raise productivity and effect economies. Consequently, operating profits of the group were just slightly below the previous year despite the growth in sales.

Organization

During the year several organizational changes became effective.

Domtar Pulp & Paper Inc. has been incorporated in the United States, with Mr. C. M. Fellows as President. Its main office is located in New York and it is responsible for the marketing of newsprint and pulps in the United States and overseas. Its activities include the Wright Company Division handling newsprint in the United States, a Pulp Sales Division dealing in pulps in all United States and overseas markets and a Development Division seeking opportunities in the United States in the pulp and paper field.

Another new subsidiary, Domtar Pulp Sales Limited, has been formed in Canada under the direction of Mr. W. T. Pound, Vice-President and General Manager. It is responsible for the co-

ordination of pulp sales and manufacturing facilities and for the sale of market pulps in Canada.

On August 1st, 1965, Domtar Packaging Limited assumed responsibility for the marketing of linerboard and corrugating medium produced at Domtar's Red Rock and Trenton mills. A Containerboard Sales Division has been organized and staffed to market the expanded production about to become available from Red Rock.

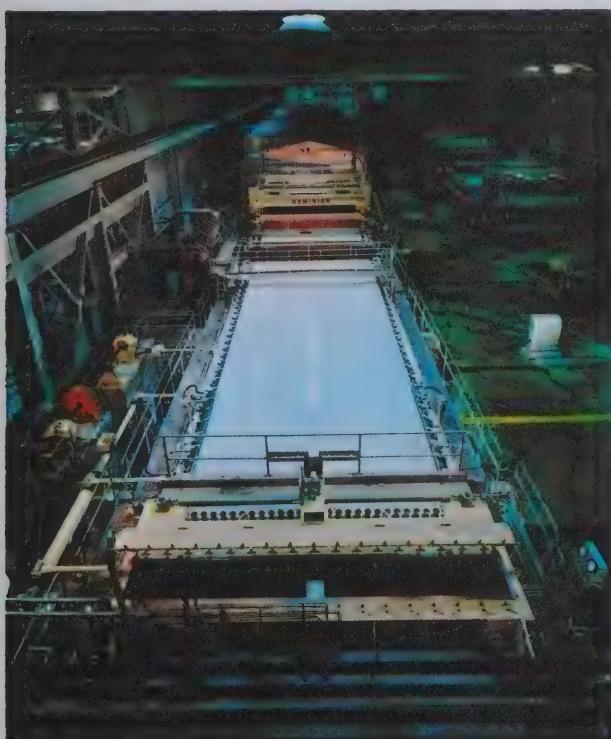
The Howard Smith and the Kraft and Boxboard Divisions of Domtar Pulp & Paper Limited have been operated separately since the beginning of 1966. The Howard Smith Division is now under the direction of Mr. J. H. Robertson and the Kraft & Boxboard Division under Mr. J. P. Lunderville, each of whom has been appointed Vice-President and General Manager of his respective division.

Acquisitions

Late in the year, Plastic Packaging Products Ltd. was acquired. Located in Montreal, this company is engaged in the extrusion of plastic sheeting for subsequent vacuum forming into plastic trays used in consumer packages for biscuits, candy, processed meats and a variety of other food products. This new line becomes a natural addition to the Plastics Division of Domtar Packaging Limited already engaged, at its Toronto plant, in the manufacture of blow moulded bottles, plastic reusable beverage carriers and precision moulded aerosol valve components.

At Wallaceburg, Ontario, a sheet plant pro-

The first full-size sheet of fine paper rolled off the mammoth No. 7 machine in Cornwall, Ont., late in 1965. The new heavyweight machine has an annual capacity of 69,000 tons and will be turning out such products as heavy offset papers, cigarette containerboard and tabulating card stock.



ducing corrugated boxes was acquired, thus bringing to nine the number of shipping case manufacturing units in Canada.

Newsprint

Shipments of newsprint were 7% above the previous year despite a drop in deliveries to the United Kingdom following imposition of import surcharges. Late in the year, seven-day operations were required at all mills to meet the demand and inventories were at minimum levels at the year end.

Prices of newsprint in our major markets were virtually unchanged although some increases in transportation costs had to be met. An adjustment of domestic prices in a few places in Ontario had little significance on total revenue.

Linerboard

Shipments of linerboard and corrugating medium to Domtar's converting plants and to the trade were about the same as last year, increased internal requirements being offset by a decline in trade sales. Productive facilities at Red Rock and Trenton were fully utilized. The additional kraft linerboard production which will become available at Red Rock in the second quarter of 1966 will ease the present tight supply position in the market place and replace the captive linerboard tonnage currently being produced at the obsolete

Scheduled for completion in the spring is the modernization program under way at the Windsor, Que., kraft and boxboard mill of Domtar Pulp & Paper, which includes the three newly-installed giant barking drums shown below. A system of closed-circuit television is among the features of the new control room.



Toronto jute liner and boxboard mill which is about to be closed down. Linerboard prices were generally firm throughout the year.

Fine papers

Shipments of fine papers recorded a moderate improvement over last year. Productive facilities were fully utilized and the output of the new paper machine which has just come on line at Cornwall will provide the additional tonnage needed to expand our market participation and reduce costs.

A modest improvement in domestic prices of some fine papers developed during the year but these were not enough to overcome increased costs.

Kraft papers

Shipments of kraft papers were 4% higher despite inroads made by substitute materials. Prices generally were firm and continued moderate growth in the market for kraft paper products is anticipated.

Boxboard

Boxboard shipments to our own converting factories and to the trade were slightly lower.

Some further decline will follow the discontinuance of boxboard production at the Toronto boxboard mill as it is planned to be more selective in the variety of boards offered when operations are transferred to the East Angus mill.

This photograph of Domtar's pulp mill under construction at Lebel-sur-Quéillon in northwestern Quebec shows the \$71 million plant, largest of its kind in eastern Canada, well on its way to completion.



Felt

Deliveries of felt were reduced due to the lower requirements of the asphalt shingle factories of our Construction Materials Division.

Converted paper products and plastics

Although sales of Domtar Packaging Limited increased 4%, operating profits failed to keep pace, declining about 1%. Rising costs and competitive pricing problems, particularly in the cor-

rugated shipping case and folding carton market, contributed to these results. However, towards the end of the year increased demand began to absorb excess capacity and some improvement in prices became evident.

Shipments of corrugated boxes were higher by almost 8% and folding cartons by 3%.

Sales of paper bags, wrapping and other converted kraft paper products improved by 5% and operating profit gained from a more selective sales approach.

The increased use of wood chips has resulted in substantial savings in pulp and paper making operations through the virtual elimination of wood waste. The entire tree is converted to pulp, except for the bark which is used as fuel. Here, wood chips are being blown through a pipe onto a mill storage pile.

The Roadside Chipper being tested in Quebec's Eastern Townships is producing wood chips from tree-length pulpwood right in the cutting area, a process expected to reduce costs by eliminating the repetitious handling of wood. This machine is a recent development of Domtar Research.



Pulps

Shipments of pulp to customers increased about 5%. Prices were generally firm throughout 1965. However, late in the year some weakness developed in the European price structure but this had little effect on the North American market.

Total Tonnage Shipped

Combined shipments of pulps, papers and board from our mills in Canada rose by 5%.

Overseas Fine Paper Mills

The fine paper mill of Howard Smith Hendon Limited at Sunderland, England, experienced a difficult year. However, the production and marketing problems of this wholly-owned subsidiary seem to have been resolved and improved results are expected from this operation in 1966.

The operations of Cellulosa d'Italia S.p.A. (Celdit) at Chieti, Italy, in which the company has a 49% interest, were adversely affected by the depressed economic conditions prevailing throughout the year in that country.

The wood pulp requirements of the Howard Smith Hendon and Celdit mills will be supplied from Domtar's Canadian mills when capacity becomes available.

Responsibilities

The production and marketing of products in the Pulp and Paper group are under the direction and supervision of the following officers:

The nearly completed \$20 million expansion program at Domtar Newsprint's Red Rock, Ont., mill is expected to increase the mill's annual containerboard capacity to 200,000 tons from 143,000, as well as provide facilities for the manufacture of multiwall sack and bag paper.

Domtar Newsprint Limited, Newsprint Division,
Mr. J. S. Hermon, Vice-President and General
Manager, Montreal, Quebec.

Domtar Newsprint Limited, Woodlands Division,
Mr. J. W. Fries, Vice-President, Montreal, Quebec.

Domtar Packaging Limited, Mr. W. H. Palm, Vice-
President and Managing Director, Toronto, Ontario.

Domtar Pulp & Paper Limited, Howard Smith
Division, Mr. J. H. Robertson, Vice-President and
General Manager, Montreal, Quebec.

Domtar Pulp & Paper Limited, Kraft & Boxboard
Division, Mr. J. P. Lunderville, Vice-President and
General Manager, Montreal, Quebec.

Domtar Pulp & Paper Inc., Mr. C. M. Fellows,
President, New York, N.Y.

Domtar Pulp Sales Limited, Mr. W. T. Pound,
Vice-President and General Manager, Montreal,
Quebec.



The use of metal powders, rather than cast metals, to make gears and parts for machinery and appliances is increasing rapidly. Domtar Chemicals, through its Metal Powders Division, is Canada's largest producer.



Domtar Consumer Products Ltd.

Domtar Packaging Limited

A perennial favorite, "Javex" laundry bleach and disinfectant has become a household word across Canada, in the Caribbean and as far afield as British Guiana, Malaysia and New Zealand. It is produced at seven plants in Canada as well as in Kingston, Jamaica.

Domtar Packaging expanded its plastic packaging operation in 1965 to include thermoforming and extrusion, as illustrated by these plastic trays for food products.



**Domtar
Pulp & Paper
Limited**

Domtar's output of pulp and paper products covers all kinds of fine, specialty and coated papers for the printing trades, including the specialty paper required for the multi-coloured offset press in operation here.

**Domtar
Newsprint
Limited**

(Below) Newsprint from the Domtar mill at Trois-Rivières is installed on presses at one of Canada's largest daily newspapers. The output of newsprint mills at Dolbeau, Donnacona and Trois-Rivières, Que., and Red Rock, Ont., is sold mainly in the United States.



**Domtar
Construction
Materials
Ltd.**

This modern living room illustrates the beauty of such Domtar construction materials as Cooksville-Laprairie "Old Dutch" burned clay brick, "Donnacona" ceiling tiles and "Vinyl-Kote" wallboard.



Main products

Chemical Products

"Sifto" salt for home, farm and industry; coal tar products; phthalic anhydride; detergents; dyestuffs and pigments; limestone, lime and sand; chemically and pressure treated wood products; iron and iron alloy powders.

Construction Materials

"Cooksville-Laprairie" burned clay brick and structural tile; Domtar glazed brick; Domtar quarry tile; Domtar masonry mortar mixes; "Cornwall" fibre conduit; Domtar asphalt shingles, roll roofing and siding; Domtar protective coatings and cements; "Donnacona" roofboard, sheathing and panel board; "Donnacona", "Donnacousti" and "Donnasorb" ceiling tiles and grid panels; "No-Co-Rode" sewer and drainage pipe; "Blue Diamond" sand lime brick; Domtar movable and fixed partitions; Domtar plasters and stuccos; "Gyproc" lath, plank and panel board; "Vinyl-Kote" panelling; "Arborite" decorative and industrial plastic laminates; "McFadden" pine lumber products; "Siporex" lightweight cellular concrete products; "Haydite" lightweight concrete aggregate.

Consumer Products

"Javex" liquid bleach; "Javex" heavy duty dry bleach; "Javex" oxygen dry bleach; "Fleecy" fabric softener; "Gay" liquid detergent; "Glide" liquid laundry starch; "Glide" spray starch; "Flusho" toilet bowl cleaner; "Sinko" drain cleaner; "Corona" lye; "Amex" liquid ammonia.

Packaging

Grocery, shopping and specialty paper bags; collapsible storage containers; wrapping papers; gummed tapes; folding cartons; fibre cans and tubes; shipping cases; corrugated and chipboard partitions; corrugated merchandising displays; solid fibre shipping containers; extruded, thermoformed, blow-moulded and injection-moulded plastic packages.

Pulp and Paper Products

Standard, offset, roto and coloured newsprint; ground-wood specialty papers; publication grade coated paper.

Kraft linerboard; semi-chemical corrugating medium; "Bulldog" kraft wrapping and meat wrap papers; envelope, tag and gumming kraft; tissue and paper towelling; cable sheathing; boxboards; felt papers.

"Howard Smith" bond, ledger, lightweight and duplicating papers; book and writing papers; litho, offset and text papers; coated papers and boards; bristol, cover, blanks and blotting papers; tag and folder papers; packaging papers; vanillin.

Bleached and unbleached softwood and hardwood sulphate pulp; bleached softwood sulphite pulp – regular, glassine and tissue grades; unbleached softwood sulphite pulp – strong, news grade, glassine specialties and easy bleaching; bleached and unbleached hardwood sulphite pulp.

DOMTAR

Ten year record

Financial		1965	1964	1963	1962	1961
Sales: Pulp and Paper	(Thousands/\$)	255,283	240,482	220,273	216,057	207,631
Chemicals	"	70,739	63,909	58,725	55,401	49,601
Construction Materials	"	80,811	81,567	73,659	72,518	68,474
Total	"	406,833	385,958	352,657	343,976	325,706
Operating Profit	"	69,847	68,971	57,403	57,944	56,459
Depreciation and Depletion	"	21,250	20,500	19,750	19,250	18,500
Income Taxes — Current	"	3,459	11,475	10,503	12,039	13,404
Deferred	"	11,561	5,879	—	—	—
Net Income	"	26,646	24,963	20,832	20,717	18,799
Common Shares Outstanding		14,621,715	14,621,715	14,562,200	14,562,200	14,322,200
Earnings per Common Share		\$1.80	\$1.69	\$1.41	\$1.40	\$1.29
Dividends per Common Share		.90	.80	.80	.80	.80
Working Capital	(Thousands/\$)	119,465	114,795	91,729	94,490	82,739
Cash flow — Total	"	59,457	51,342	40,582	39,967	37,299
Per Common Share		\$4.05	\$3.49	\$2.77	\$2.72	\$2.58
Capital Expenditures	(Thousands/\$)	66,504	28,888	19,379	26,700	19,010
Fixed Assets — cost	"	527,163	465,221	439,869	421,406	392,373
Accumulated Depreciation	"	246,782	230,094	213,130	194,843	175,904
Fixed Assets — net	"	280,381	235,127	226,739	226,563	216,469
Funded Debt	"	143,993	115,805	102,160	109,125	94,231
Book Value per Common Share		\$15.51	\$14.72	\$13.85	\$13.26	\$12.77
Pulp and Paper Production*						
Newsprint	(Tons)	558,661	523,217	489,140	476,531	477,081
Kraft Paper and Board	"	435,705	428,705	406,418	415,298	379,321
Fine Papers	"	153,019	154,409	129,661	125,116	116,156
Market Pulp	"	195,572	182,169	144,134	141,832	152,221
Total	"	1,342,957	1,288,500	1,169,353	1,158,777	1,124,779

* Pro-forma 1960 and prior.

1960	1959	1958	1957	1956
—	—	—	—	—
—	—	—	—	—
—	—	—	—	—
215,117	219,293	181,377	177,711	79,037
34,503	34,965	27,760	27,750	11,711
12,500	12,500	8,150	7,968	2,750
7,605	7,150	8,635	8,830	3,650
—	—	—	—	—
10,079	11,231	7,304	6,561	4,915
6,805,932	6,782,232	5,000,000	5,000,000	3,758,938
\$1.43	\$1.61	\$1.40	\$1.25	\$1.23
.60	.60	.50	.50	.50
49,244	37,721	52,626	43,572	11,995
22,579	23,731	15,454	14,529	7,665
\$3.27	\$3.45	\$3.03	\$2.85	\$1.96
17,309	29,931	12,798	11,791	7,355
259,399	242,090	180,106	164,208	41,657
111,115	100,037	88,793	79,494	18,271
148,284	142,053	91,313	84,714	23,386
53,043	42,308	43,948	30,969	16,952
\$15.40	\$14.25	\$12.82	\$12.21	\$10.14
490,194	462,330	456,223	534,665	545,809
378,079	378,184	356,728	354,722	374,541
111,560	101,580	99,453	93,601	94,956
121,416	100,156	116,918	152,886	165,942
1,101,249	1,042,250	1,029,322	1,135,874	1,181,248

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